

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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TN REGULATORY AUTHORITY

IN RE:

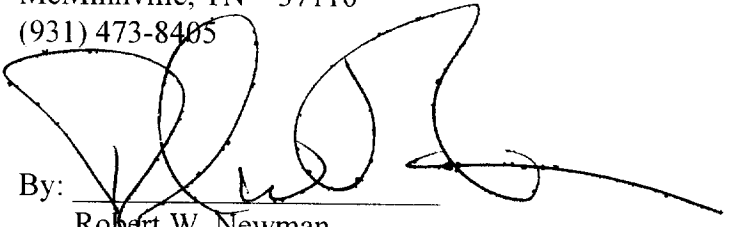
APPLICATION OF MCMINNVILLE ELECTRIC)
SYSTEM FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO PROVIDE) Docket No. 98-00757
FIBER OPTIC SERVICES WITHIN THE)
TERRITORIAL CONFINES OF THE SERVICE)
AREA OF MCMINNVILLE ELECTRIC SYSTEM)

WAIVER

At the request of the Tennessee Regulatory Authority, McMinnville Electric System hereby waives the sixty (60) day period for a hearing and/or decision in the above captioned matter.

Respectfully submitted,

GALLIGAN & NEWMAN
309 West Main Street
McMinnville, TN 37110
(931) 473-8405

By: 
Robert W. Newman
Attorney for MES

TENNESSEE REGULATORY AUTHORITY

Melvin Malone, Chairman
Lynn Greer, Director
Sara Kyle, Director



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

November 25, 1998

Robert W. Newman
Attorney at Law
309 West Main Street
McMinnville, TN 37110

RE: Docket 98-00757
Application of McMinnville Electric System for a Certificate of Convenience and
Necessity to Provide Telecommunications Services in Tennessee

Dear Mr. Newman:

Per your conversations with Scott Trout, please provide responses to the following
questions by December 22, 1998 :

Technical Requirements

- 1) In regard to the Fiber Optic Cable Network that McMinnville Electric System proposes to provision in Tennessee, what is the proposed location of the equipment necessary to provide service to end-users (what cities)?

Financial Requirements

- 2) What is the cost of the proposed network, switches, unbundled network elements (UNEs), etc...that McMinnville Electric System proposes to provision in Tennessee?
- 3) How does McMinnville Electric System propose to fund their operations in Tennessee (cash on hand, letters of credit, loan commitments, vendor credits, etc..)?
- 4) Provide information regarding any financing to be provided by any related party.

Small & Minority-Owned Business Participation Plan

- 5) McMinnville Electric System's Small & Minority-Owned Telecommunications Business Participation Plan, pursuant to T.C.A. §65-5-212, was not included with its application. Please provide the Plan, and include the name and contact information for the administrator of the Plan.

General Information

- 6) Please provide the name and contact information for a McMinnville Electric System representative that the TRA may contact regarding McMinnville Electric System's telecommunications operations, maintenance and repairs in Tennessee.
- 7) What company/companies serve as the ILEC(s) in the areas that McMinnville Electric System intends to provide telecommunications service?
- 8) It is required that McMinnville Electric System serve notice to other carriers, per T.C.A. §65-4-201 (c). Please provide the TRA with a list of carriers to whom McMinnville Electric System has served notice. A sample of such a notice is enclosed with this document.
- 9) Does McMinnville Electric System intend to provide telecommunications services to other carriers, and/or does McMinnville Electric System intend to provide these services to end-users (business and/or residential customers)?
- 10) What steps has McMinnville Electric System taken to segregate its electric and telecommunications operations, to avoid cross subsidization of its telecommunications operations in Tennessee with revenues from the provision of electric service?

Thank you for your cooperation in obtaining this information. If you have any questions please contact Scott Trout, at 615-741-7489, ext. 163.

Sincerely,



David Waddell
Executive Secretary

enclosure

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing Application on behalf of ALEC, Inc., via United States mail, first class postage prepaid and properly addressed to the following:

American Communication Services, Inc.
131 National Business Parkway, Suite 100
Annapolis Junction, MD 20701

ATS of Tennessee, Inc.
3915 Mendenhall Road South
Memphis, TN 38115

AT&T
411 Union Street, Suite 1010
Nashville, TN 37219

BellSouth Telecommunications, Inc.
Guy M. Hicks, General Counsel
333 Commerce Street
Nashville, TN 37201-3300

Ben Lemond Rural Telephone Co-op, Inc.
P.O. Box 670
311 North Chancery Street
McMinnville, TN 37111

Bledsoe Telephone Cooperative
203 Cumberland Avenue
P.O. Box 609
Pikeville, TN 37367

Brooks Fiber Communications of TN, Inc.
800 South Gay Street, Suite 1800
Knoxville, TN 37924

BTI Communications, Inc.
4300 Six Forks Road
P.O. Box 150002
Raleigh, NC 27624

Citizens Communications Company
300 Bland Street
P.O. Box 770
Bluefield, WV 24701

Citizens Telecommunications Company
of the Volunteer State
Mike Swatts
State Regulatory Director, South
P.O. Box 770
300 Bland Street
Bluefield, WV 24701

Comm. Depot, Inc.
889 Bendix Drive
Jackson, TN 38301

DeltaCom, Inc.
113 South Main Street
P.O. Box 1233
Arab, AL 35016

DTC Communications
111 High Street
P.O. Box 247
Alexandria, TN 37012-0247

GTE Communications Corp.
1200 Walnut Hill Lane
Irving, TX 75038

Highland Telephone Cooperative, Inc.
7840 Morgan County Highway
P.O. Box 119
Sunbright, TN 37872-0119

SAMPLE

Hyperion of TN, Inc.
Washington Square - Suite 422
222 Second Avenue, North
Nashville, TN 37219

ICG Telecom Group, Inc.
2100 West End Avenue, Suite 620
Nashville, TN 37203

Intermedia Communications
3625 Queen Palm Drive
Tampa, FL 33619-1309

LCI International Telecom Corp.
8180 Greensboro Drive, Suite 800
McLean, VA 22102

Logix Communications Corporation
13429 N. Broadway Extension, Suite 200
Oklahoma City, OK 73114

MSF Intellener of Tennessee, Inc.
515 East Arnite Street, 4th Floor
Jackson, Mississippi 39201

MCI Telecommunications Corporation
780 Johnson Ferry Road, #700
Atlanta, GA 30342

MFS Communications Company, Inc.
One Tower Lane, Suite 1600
Oakbrook Terrace, IL 60181

New South Communications, LLC
355 Woodruff Road
Greenville, SC 29607

NEXTLINK Tennessee
105 Molloy Street, Suite 300
Nashville, TN 37201

North Central Telephone Cooperative, Inc.
Highway 52 By-Pass
P.O. Box 70
Lafayette, TN 37083

SouthEast Telephone, LTD
317 Main Street, 4th Floor
Pikeville, KY 41501

Sprint Communications Company
3100 Cumberland Circle
Mail Stop: GAATLN0802
Atlanta, GA 30339

Sprint-United
Steve Parrott
Director, Regulatory Affairs
United Telephone-Southeast, Inc.
14111 Capital Boulevard
Wake Forest, NC 27587-5900

TCG MidSouth
49 Music Square East, Suite 200
Nashville, TN 37203

Teligent, Inc.
8065 Leesburg Pike, Suite 400
Vienna, VA 22182

Time Warner
P.O. Box 210706
Nashville, TN 37221

Twin Lakes Telephone Cooperative
Corporation
201 W. Gore Avenue
P.O. Box 67
Gainesboro, TN 38562-0067

US LEC of Tennessee
212 South Tryon Street, Suite 1540
Charlotte, NC 28281

US West Interprise America, Inc.
1999 Broadway, Suite 700
Denver, CO 80202

SAMPLE

McMINNVILLE ELECTRIC SYSTEM

P. O. BOX 608

McMINNVILLE, TENNESSEE 37110

PHONE 473-3144

98-00757

October 22, 1998

Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Dear Ladies and/or Gentlemen:

Please find enclosed our original application and thirteen copies for a Certificate of Public Convenience and Necessity to provide fiber optic services within the territorial confines of the service area of McMinnville Electric System. Also enclosed is one file copy to be returned to us upon your receipt of this application.

Your consideration of this application will be greatly appreciated. If you have any questions or concerns, please feel free to contact our Assistant General Manager, Neal Cox at (931) 473-3144 or our legal counsel Mr. Robert Newman at (931) 473-8405.

Sincerely,

McMINNVILLE ELECTRIC SYSTEM

Don R. Collette

Don R. Collette
President/CEO

Enclosures -

VCU FILE NO. 777-106564
CA 3990 CTO. 281.03
AMT. ENC. 25.00
DEPOSIT DATE 10/28/98

McMINNVILLE ELECTRIC SYSTEM

P. O. BOX 608

McMINNVILLE, TENNESSEE 37110

PHONE 473-3144

98-00757

October 22, 1998

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460 James Robertson Parkway
Nashville, TN 37243

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Sincerely,

McMINNVILLE ELECTRIC SYSTEM

Don R. Collette

Don R. Collette
President/CEO

Enclosures -

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EXEC. SECRETARY OFF.

OCT 27 1998

TN REGULATORY AUTHORITY

THE FACE OF THIS DOCUMENT HAS A COLORED BACKGROUND — NOT A WHITE BACKGROUND

McMINNVILLE ELECTRIC SYSTEM

No. 003990

McMINNVILLE, TENNESSEE 37110

DATE 10/23/98

CHECK NO. 9758

CO-SIGNATURE

James D. Hoot

PAY

TO THE ORDER OF



AMOUNT \$25.00

Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243
Attn: Debra Webb

D.E. Calvert

AUTHORIZED SIGNATURE

THE BACK OF THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK — HOLD AT AN ANGLE TO VIEW

⑈003990⑈ ⑈064101589⑈ 000 275 5⑈

THE FIRST NATIONAL BANK

McMINNVILLE, TENN.

87-158/641

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

APPLICATION OF MCMINNVILLE ELECTRIC)
SYSTEM FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO PROVIDE)
FIBER OPTIC SERVICES WITHIN THE)
TERRITORIAL CONFINES OF THE SERVICE)
AREA OF MCMINNVILLE ELECTRIC SYSTEM)

Docket No.

98-00757

APPLICATION

The Board of Public Utilities for the City of McMinnville, Tennessee (Applicant or MES) hereby applies to the Tennessee Regulatory Authority (TRA), for a Certificate of Public Convenience and Necessity ("Certificate") to become a competing telecommunications service provider. Applicant MES respectfully requests that the Authority grant a Certificate to Applicant to provide fiber optic telecommunications services within the service area of MES, that being the corporate city limits of McMinnville, Tennessee, and a small adjacent area of Warren County, Tennessee. In support of the Application, MES submits the following information:

I. The name and address of the Applicant is:

McMinnville Electric System
200 West Morford Street
McMinnville, TN 37110
(931) 473-8405
(Mr. Donald Collette)
(Mr. Neal Cox)

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OCT 27 1998

TN REGULATORY AUTHORITY

MES is a board of the City of McMinnville, Tennessee, a Tennessee municipal corporation. MES operates under the Municipal Electrical Plant Law of 1935 (T.C.A. 7-52-101 et.seq.) and currently provides electric power at the retail level to industrial,

*waiting for
check*

commercial, and residential customers in the City of McMinnville and a small portion of Warren County, Tennessee.

MES is an independent board of the City of McMinnville. As such, it is authorized to transact business in Tennessee without the necessity of otherwise receiving any additional authorization of certificates from the Secretary of State of the State of Tennessee.

II Correspondence concerning the Application should be directed to:

Donald Collette
Neal Cox
McMinnville Electric System
200 West Morford Street
McMinnville, TN 37110
(931) 473-3144

III. MES plans to construct a fiber optics network for its own electric system uses in and around McMinnville, Tennessee, which network has excess capacity that is usable for telecommunications services. Accordingly, MES plans to lease *(capacity) on that fiber optic network and other fiber optic routes that MES may own or lease that would make it possible for MES to provide telecommunication services within our service area, and seeks a Certificate to provide said services.

*dark fiber .

IV. MES has the managerial, financial and technical fitness to provide the applied- for services in the State of Tennessee.

A. Managerial Fitness. MES, led by Donald R. Collette, President and Chief Executive Officer, has an excellent senior management team, backed by experienced employees, who are competent in engineering, operations, customer service and marketing. This same management team will manage the telecommunications operations of MES. Attached to this application as Exhibit A is a list of the names of Applicant's principal

management team and a description of each individual's background and experience. As shown in Exhibit A, this management team of MES has substantial managerial experience in the areas of utility engineering, utility operations, utility customer services and utility marketing - each of which is essential to success in the telecommunications field. If necessary, MES, will consult with a consulting firm to provide assistance and support to its entry into the leasing and reselling of fiber optic space in Tennessee to ensure compliance with all regulatory requirements

. B. Financial Fitness. MES submits herewith its Financial Report for the period ending June 30, 1998, attached as Exhibit B, which demonstrates the MES is financially qualified to provide the service herein requested.

C. Technical Fitness. Applicant, MES is technically qualified to offer the services requested. MES maintains its own dedicated Engineering Department under the direction of Carl Walker.

V. MES will adhere to all applicable TRA policies, rules and orders.

WHEREFORE, Applicant MES prays:

1. The Tennessee Regulatory Authority grant McMinnville Electric System a Certificate of Public Convenience and Necessity to provide telecommunication services, specifically the leasing or reselling of excess capacity of its fiber optic network and other fiber optic routes which MES may construct to customers within the service area of McMinnville Electric System in McMinnville and Warren County, Tennessee

2. The Tennessee Regulatory Authority grant Applicant, MES such other, further and general relief as it might be entitled the under the premises.

DATED this the 20th day of October, 1998.

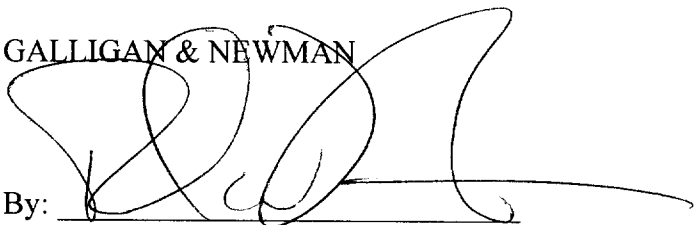
Respectfully submitted,

MCMINNVILLE ELECTRIC SYSTEM

By: Donald R. Collette

Donald Collette
President and Chief Executive Officer
200 West Morford Street
McMinnville, TN 37110

GALLIGAN & NEWMAN

By: 

Robert W. Newman
Attorney for Petitioner
309 West Main Street
McMinnville, TN 37110

EXHIBIT A

Donald R. Collette President & C.E.O.

- ◆ 25 years experience as CEO of McMinnville Electric System and 20 years experience with Rockwood Electric System
- ◆ Certified Power Executive
- ◆ Background in Accounting, Engineering and Operations
- ◆ Past President American Public Power Association
- ◆ Tennessee Valley Public Power Association Chairman of Deregulation & Restructuring Committee

Neal L. Cox Asst. Manager / Director of Finance, Accounting, Metering & Data Processing

- ◆ 25 years experience with McMinnville Electric System
- ◆ Graduate of Middle Tennessee State University with a BS Degree in Accounting and a Minor in Economics and Emphasis in Business Administration, Math and Data processing
- ◆ Advanced Certified Power Executive
- ◆ Background in Accounting, Computer System Designs and Programming, Telecommunications and Rate Design

Carl Walker Director of Operations & Engineering

- ◆ 24 years experience at McMinnville Electric System with 18 years Experience with Caney Fork Electric Cooperative
- ◆ Background in Electric System Operations and Maintenance
- ◆ Board Member of Tennessee Job Training and Safety Advisory Committee

Jane Flatt Director of Communications & Marketing

- ◆ 27 years Experience at McMinnville Electric System
- ◆ Certified Professional Secretary
- ◆ Certified Power Executive
- ◆ Background in Marketing and Administrative Services
- ◆ National Board Member Electrical Women's Roundtable

Larry McGregor Director of Transportation & Building/Grounds

- ◆ 27 year Experience at McMinnville Electric System
- ◆ Certified Power Executive
- ◆ Background in Purchasing and Electrical Operations
- ◆ Tennessee Valley Public Power Association Human Resources Planning Committee

EXHIBIT B

McMINNVILLE ELECTRIC SYSTEM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year ended June 30, 1998

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INDEPENDENT AUDITORS' REPORT

Board of Public Utilities
McMinnville, Tennessee

We have audited the accompanying financial statements of , McMinnville Electric System, a department of the City of McMinnville, Tennessee, as of and for the year ended June 30, 1998, as listed in the table of contents. These financial statements are the responsibility of the McMinnville Electric System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

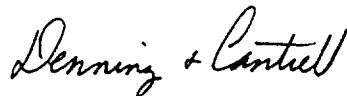
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the McMinnville Electric System and are not intended to present fairly the financial position of the City of McMinnville, Tennessee, and the results of its operations and the cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McMinnville Electric System as of June 30, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 1998 on our consideration of the McMinnville Electric System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of McMinnville Electric System taken as a whole. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the McMinnville Electric System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements, taken as a whole.



Certified Public Accountants

McMinnville, Tennessee
August 3, 1998

McMINNVILLE ELECTRIC SYSTEM

BALANCE SHEET

June 30, 1998

ASSETS

Utility plant:			
Electric plant		\$	13,989,904
Less accumulated depreciation			<u>6,523,526</u>
		\$	7,466,378
Acquisition adjustments (Cost \$1,555,339 less amortization \$1,115,435)			<u>439,904</u>
		\$	7,906,282
Non-current assets:			
Net pension asset			498,017
Contracts receivable – for home weatherization	\$	537,239	
Less amount due within one year		<u>170,000</u>	<u>367,239</u>
		\$	8,771,538
Current assets:			
Cash and cash equivalents			
Unrestricted	\$	393,108	
Restricted		73,734	
Investments:			
Unrestricted		1,000,000	
Restricted		109,063	
Accounts receivable		978,744	
Portion of non-current receivables due within one year		170,000	
Inventories		161,067	
Prepaid insurance		17,782	
Interest receivable		11,622	
Other current assets		<u>38,582</u>	<u>2,953,702</u>
		\$	<u><u>11,725,240</u></u>

See the notes to financial statements.

LIABILITIES AND RETAINED EARNINGS

Long-term debt:		
Contracts payable	\$	337,705
Advance – Tennessee Valley Authority for home weatherization loans and interest		<u>545,862</u>
	\$	883,567
Less amount due within one year		<u>228,566</u>
	\$	655,001
Current liabilities:		
Accounts payable	\$	298,132
Customer deposits		280,267
Interest payable		30,288
Accrued vacation payable		217,805
Deferred benefit payable		109,063
Other current liabilities		97,735
Portion of long-term debt due within one year		<u>228,566</u>
		<u>1,261,856</u>
	\$	1,916,857
Retained earnings – restated see Note L		9,808,383

\$ 11,725,240

McMINNVILLE ELECTRIC SYSTEM

STATEMENT OF INCOME

Year ended June 30, 1998

Operating revenue:		
Electric sales revenue	\$	14,325,166
Rent from electric property		134,958
Forfeited discounts		57,304
Miscellaneous service revenue		113,033
Miscellaneous jobbing revenue		<u>3,385</u>
	\$	14,633,846
Operating expenses:		
Purchased power	\$	11,609,567
Distribution expense		320,376
Customer accounts expense		249,455
Customer service and information		69,774
Sales expense		11,087
Administrative and general expense		647,101
Maintenance expense		415,027
Depreciation (excluding amount of \$60,292 charged to other accounts)		487,668
Amortization — acquisition adjustments		68,193
Taxes and tax equivalents		322,568
Interest expense for customer deposits		1,643
Donations and community welfare		<u>5,962</u>
		14,208,421
	Operating income \$	425,425
Other income — interest		<u>119,585</u>
	Net income \$	545,010
Retained earnings at July 1, 1997 — restated		<u>9,263,373</u>
Retained earnings at June 30, 1998	\$	<u><u>9,808,383</u></u>

Interest incurred (\$ 1,643) was charged
to expense.

See the notes to financial statements.

McMINNVILLE ELECTRIC SYSTEM

STATEMENT OF CASH FLOWS

Year ended June 30, 1998

Cash flows from operating activities:

Cash received from customers	\$ 14,362,241
Cash payments to suppliers for goods and services	(12,379,429)
Cash payments to employees for services	(1,082,087)
Cash received for miscellaneous jobbing	3,385
Taxes and tax equivalents	(322,568)
Interest paid on customer deposits	(14,895)
Cash donations and community welfare	(5,962)
Net decrease in TVA loan funds receivable	48,470
Net decrease in TVA loan funds payable	<u>(69,550)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 539,605

Cash flows from capital and related financing activities:

Additions to plant	\$ (536,271)
Removal cost	(30,555)
Salvage	40,606
Payments on long-term debt	<u>(58,565)</u>

NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES (584,785)

Cash flows from investing activities:

Proceeds from investments	\$ 89,179
Interest on investments	<u>107,963</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 197,142

NET INCREASE IN CASH AND CASH EQUIVALENTS \$ 151,962

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 314,880

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 466,842

See the notes to financial statements.

McMINNVILLE ELECTRIC SYSTEM

STATEMENT OF CASH FLOWS

Year ended June 30, 1998

Reconciliation of operating income to net cash provided by operating activities:

Operating income		\$	425,425
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	\$	547,959	
Amortization of acquisition adjustments		68,193	
Decrease (Increase) in operating assets:			
Accounts receivable		(250,642)	
Inventories		(17,582)	
Prepaid expenses		879	
Other current assets		(10,113)	
TVA contracts receivable – home weatherization		48,470	
Net pension asset		(366,651)	
Increase (Decrease) in operating liabilities:			
Accounts payable		193,976	
Customer deposits		(17,578)	
Accrued interest payable		(13,252)	
Accrued vacation payable		33,298	
Deferred benefit payable		10,821	
Other current liabilities		(44,048)	
TVA contracts payable – home weatherization		(69,550)	
	TOTAL ADJUSTMENTS		<u>114,180</u>
	NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u><u>539,605</u></u>

Cash paid during the year for interest amounted to \$ 21,741.

See the notes to financial statements.

McMINNVILLE ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McMinnville Electric System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard – setting body for establishing governmental accounting and financial reporting principles. After November 30, 1989, the System does not follow Financial Accounting Standards Board (FASB) pronouncements. The more significant of the Company's accounting policies are described below.

Legal Formation

McMinnville Electric System was formed by an ordinance of the City of McMinnville, Tennessee as provided by Section 13 of Chapter 32 of the Public Acts of Tennessee, 1935. Therefore McMinnville Electric System is a department of the City of McMinnville, Tennessee.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The System uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when the liability is incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the System considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories

The inventories of materials and supplies are based on lower of average cost or market.

Depreciation

The System computes depreciation based on average rates. Those rates range from 2.0% to 15.0%.

NOTE B – ACQUISITION ADJUSTMENTS

Acquisition adjustments represent the excess of purchase price over depreciated cost of additions to the electric plant acquired from others. The acquisition adjustments are being amortized against income on a straight line basis as determined by the Tennessee Valley Authority.

McMINNVILLE ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 1998

NOTE C – LONG TERM DEBT

Long term debt consists of contracts payable to Caney Fork Electric Cooperative, Inc. for the total of costs of additions to the electric plant and the acquisition adjustment referred to in Note B, and advances from TVA for home weatherization loans and interest. The contracts payable are payable in annual installments without any interest charges. The TVA advances for home weatherization loans is payable in monthly installments as the System is paid by the customers. Long term debt matures as follows:

<u>Year ended June 30,</u>		
1999	\$	228,566
2000		218,566
2001		208,566
2002		124,428
2003		46,514
Beyond five years		56,927
	TOTAL \$	<u>883,567</u>

NOTE D – CONTRACTS RECEIVABLE

Contracts receivable consists of receivables from customers for weatherization loans made from TVA through the System. Customers are paying these receivables on a monthly basis with their electric bills. The estimated maturities of these receivables are as follows:

<u>Year ended June 30,</u>		
1999	\$	170,000
2000		160,000
2001		150,000
2002		<u>57,239</u>
	TOTAL \$	<u>537,239</u>

NOTE E – PENSION PLAN

Plan Description

McMinnville Electric System Defined Benefit Pension Plan is a single-employer defined benefit pension plan administered by the McMinnville Electric System. This plan provides retirement, disability, and death benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the McMinnville Electric System. The authority to establish and amend benefit provisions is assigned to the McMinnville Electric System. The plan issues a separate financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Buck Consultants, 231 South Bemiston Suite 400, St. Louis, MO 63105 or by calling 1-314-725-0114.

Funding Policy

The contribution requirements of plan members and the System are established and may be amended by the Electric System. Plan members are required to contribute 3.0% of their annual covered salary. The System is required to contribute at an actuarially determined rate: the current rate is 19.1% of annual covered payroll.

McMINNVILLE ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Annual Pension Cost and Net Pension Obligation

The System's annual pension cost and net pension obligation to the Plan for the current year were as follows:

Annual required contribution	\$ 167,703
Interest on net pension obligation	(9,196)
Adjustment to annual required contribution	<u>12,124</u>
Annual pension cost	\$ 170,631
Contributions made	<u>537,282</u>
Increase (Decrease) in net pension obligation	(366,651)
Net pension obligation at beginning of year	<u>(131,366)</u>
Net pension obligation at end of year	<u>\$ (498,017)</u>

The annual required contribution for the current year was determined as part of the March 1, 1998 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% per year. The unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis. The remaining amortization period at June 30, 1998 was 20 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/96	\$ 158,884	98.2 %	(124,957)
2/28/97	161,591	104.0	(131,366)
2/28/98	170,631	314.9	(498,017)

The valuation report was issued based on a February 28, 1998 fiscal year end. The System made a contribution of \$ 362,782 in June, 1998 to make the plan whole as of March 1, 1998. This contribution was not included in the actuarial report for the fiscal year ended February 28, 1998, but was included in the expenses of the System for this year. This contribution is reflected in the calculation of net pension obligation (NPO) and pension cost for this current fiscal year.

NOTE F – FAIR VALUE OF FINANCIAL INSTRUMENTS

The System has investments in non-negotiable certificates of deposit. These investments are carried at cost and the fair value of these instruments is also cost. At June 30, 1998, their carrying value and fair value was \$ 1,109,063.

McMINNVILLE ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

NOTE G – RISK FINANCING ACTIVITIES

It is the policy of the McMinnville Electric System to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, employee health and accident, and environmental. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE H – DEFERRED BENEFIT PAYABLE

The System has adopted a deferred compensation agreement with the General Manager of the System whereby a set amount (\$ 5,000 for the current year) is invested in a certificate of deposit to be accumulated with interest until the General Manager reaches age 62. The Board has the right to raise or lower this amount annually. At age 62, this agreement is to be paid in equal monthly installments over a period of ten years. The System carries this asset as a restricted investment described in Note G.

NOTE I – DEPOSITS AND INVESTMENTS

Deposits

It is the System's policy for deposits to be 105% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance.

Investments

Investment pools are under the custody of the Controller. Investing is performed in accordance with investment policies complying with State Statutes. Pooled funds may be invested in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit at savings and loan associations and federally insured banks when secured by acceptable collateral, (3) savings accounts at savings and loan associations and banks, to the extent fully insured, and (4) any bond, note, or other indebtedness issued by agencies, authorities, or public entities whose governing boards are appointed by the City Council, or issued by any public trust of which it is sole beneficiary. The management of the non-pooled investments is performed in accordance with applicable bond indentures by trustee bank departments.

The System's pooled and non-pooled deposits and investments are categorized to give an indication of the level of risk assumed by the System at June 30, 1998. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 – Uncollateralized.

McMINNVILLE ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

NOTE I – cont.

Deposits and Investments, categorized by level of risk, are:

	<u>Category</u>			<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
State of TN Deposit Pool:				
Cash and cash equivalents				
Investments	\$ 309,063			\$ 309,063
Other Deposits:				
Cash and cash equivalents	468,633			461,592
Investments	800,000			800,000
	<u>\$ 1,577,696</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,570,655</u>

All of the unrestricted investments consist of certificates of deposit which are covered by the Federal Deposit Insurance Corporation or are fully collateralized by the financial institution. The interest rates on these certificates of deposit vary from 5.68% to 6.05%.

The restricted investment consists of one certificate of deposit which is collateralized by the financial institution and bears interest at the rate of 5.68%.

NOTE J – SELF INSURANCE ACCOUNT

The System has a partially self-insured health insurance program that covers all eligible employees. There is a maximum amount of \$ 10,000 per year per employee and an aggregate amount of \$ 66,198 per year that the System can be responsible for. A stop-loss insurance policy covers all claims in excess of the above amounts.

NOTE K – COMPENSATED ABSENCES

Full-time, regular employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the System. Sick leave accrues to full-time, regular employees to specified maximums. Generally after one year of service, employees are entitled to all of their accrued vacation leave upon termination. No accrued sick leave is available unless an employee retires from the System. At retirement, an employee can receive 75% of accumulated sick leave days in excess of 120 days.

NOTE L – RETAINED EARNINGS

The System implemented GASB No. 27 this year which requires for this proprietary fund to record the net pension obligation(NPO). The NPO was calculated from the first plan year beginning after December 15, 1986 through the present. At June 30, 1997, the NPO would have been an asset of \$ 131,366. This would have increased retained earnings at June 30, 1997 to \$ 9,441,732.

McMINNVILLE ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Required Supplementary Information under GASB Statement No. 25						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
3/1/93	\$ 791,232	\$ 1,878,822	\$ 1,087,590	42.1 %	\$ 757,770	143.5
3/1/94	1,008,566	2,182,337	1,173,771	46.2	837,054	140.2 %
3/1/95	1,248,430	2,507,756	1,259,326	49.8	915,674	137.5
3/1/96	1,522,215	2,794,742	1,272,527	54.5	930,468	136.8
3/1/97	1,500,890	2,813,919	1,313,029	53.3	983,388	133.5
3/1/98	1,488,433	3,056,004	1,567,571	48.7	981,645	159.7

Schedule of Employer Contributions

Year Ended February 28,	Annual Required Contribution	Actual Contribution	Percentage Contributed
1993	\$ 125,378	\$ 132,000	105.3 %
1994	130,783	144,000	110.1
1995	138,363	156,000	112.7
1996	156,492	156,000	99.7
1997	159,041	168,000	105.6
1998	167,703	537,282	320.4

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	3/1/98
Actuarial cost method	Entry Age (level percentage)
Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	Market
Actuarial Assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

SUPPLEMENTARY INFORMATION

McMINNVILLE ELECTRIC SYSTEM

OPERATING EXPENSES

Year ended June 30, 1998

Schedule 1 – Distribution Expense

Supervision and engineering	\$ 120,753
Station expense	21,809
Overhead and underground line expense	75,406
Rents	6,000
Street lighting and signal system expense	18,363
Meter expense	62,258
Customer installation expense	7,949
Miscellaneous	7,838
	<u>\$ 320,376</u>

Schedule 2 – Customer Accounts Expense

Supervision	\$ 58,826
Meter reading	35,795
Customer records and collection expense	115,650
Uncollectible accounts	39,184
	<u>\$ 249,455</u>

Schedule 3 – Customer Service Information

Customer assistance expense	\$ <u>69,774</u>
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Schedule 4 – Sales Expense

Advertising	\$ 6,011
Miscellaneous	5,076
	<u>\$ 11,087</u>

See independent auditors' report.

McMINNVILLE ELECTRIC SYSTEM

OPERATING EXPENSES

Year ended June 30, 1998

Schedule 5 – Administrative and General Expense

Administration and general salaries	\$	177,217
Office supplies and expense		53,875
Outside services employed		35,732
Property insurance		11,115
Injuries and damages		60,046
Employee pensions and benefits		284,765
Advertising		9,074
Employee uniforms		5,299
Miscellaneous expense		9,978
		<hr/>
	\$	<u>647,101</u>

Schedule 6 – Maintenance Expense

Supervision and engineering	\$	43,042
Maintenance of station equipment		1,205
Maintenance of overhead lines		291,734
Maintenance of underground lines		4,023
Maintenance of line transformers		9,226
Maintenance of street lighting and signal systems		20,924
Maintenance of meters		20,975
Maintenance of security lights		4,107
Maintenance of general plant		19,791
		<hr/>
	\$	<u>415,027</u>

See independent auditors' report.

McMINNVILLE ELECTRIC SYSTEM

SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT

Year ended June 30, 1998

	<u>Balance at July 1, 1997</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 1998</u>
Distribution plant	\$ 11,664,236	\$ 512,081	\$ 80,969	\$ 12,095,348
General plant	1,863,406	59,402	35,920	1,886,888
Construction in progress	<u>42,880</u>	<u>(35,212)</u>		<u>7,668</u>
	<u>\$ 13,570,522</u>	<u>\$ 536,271</u>	<u>\$ 116,889</u>	<u>\$ 13,989,904</u>

See independent auditors' report.

McMINNVILLE ELECTRIC SYSTEM
SCHEDULE OF INSURANCE COVERAGE

June 30, 1998

<u>Type of Coverage</u>		<u>Limits of Liability</u>
Directors and officers	Personal liability	\$ 1,000,000
Money and securities	Theft	100,000
Retirement trust	Fiduciary liability	1,000,000
Buildings and contents, including substations	Fire and extended coverage	4,396,347
Workman's compensation	Employees	Statutory
Public liability	Public – bodily injury	1,000,000
	Property damage	1,000,000
Excess public liability	Catastrophes	1,000,000
Automobiles and trucks	Combined single limit	1,000,000

See independent auditors' report.

McMINNVILLE ELECTRIC SYSTEM

LIST OF OFFICIALS

June 30, 1998

Donald Ray Collette	General Manager
Jeffrey Golden	Chairman of Board
Thorold Ramsey	Vice – Chairman of Board
Sam Martin	Board Member
O. M. Womack, Jr.	Board Member
Ricky Minton	Board Member
Thomas Bratcher	Secretary and Treasurer
Robert Newman	General Counsel

Note: The Chairman and four members of the Board receive \$100 per meeting when attended. The Secretary and Treasurer receives \$100 per meeting and the General Counsel receives \$500 per month.

See independent auditors' report.

McMINNVILLE ELECTRIC SYSTEM

SCHEDULE OF RATES IN FORCE

June 30, 1998

RESIDENTIAL RATE

Customer charge per month (\$ 10.48 less hydro allocation credit of \$ 2.48) \$	8.00
Energy charge:	
First 800 KWH per KW per month	0.058
Additional KWH per month	0.050

GENERAL POWER RATE

PART A (DEMAND 0-5,000 KW)

1. Less than 50 KW		
Customer charge per month		15.00
Energy charge:		
First 1500 KWH per KW per month		.064
Additional KWH per month		.061
2. Between 51 KW and 1,000 KW		
Customer charge per month		40.00
Demand charge:		
First 50 KW per month		9.90
Energy charge:		
First 15,000 KWH per month		.061
Additional KWH per month		.033
3. Demand greater than 1,001 KW	<u>Manufacturing</u>	<u>All other</u>
Customer charge per month	750.00	750.00
Demand charge:		
First 1,000 KW per month	9.22	9.75
Additional KW per month	8.99	9.60
Energy charge:		
All KWH per month	0.03093	0.03300

PART B

	<u>Manufacturing</u>	<u>All other</u>
Customer charge per month	1,500.00	1,500.00
Demand charge:		
Per KW per month (firm KW)	10.19	10.85
Per ESP KW per month	1.21	1.21
ESP KWH (average cost)	.02124	.02124
ESP Transaction	1,075.00	1,075.00
Energy charge:		
First 620 KWH per KW per month	0.02637	.02825
Additional KWH per month	0.02152	.02306
Facilities Rental per KW	1.10	1.10

See independent auditors' report.

McMINNVILLE ELECTRIC SYSTEM

SCHEDULE OF RATES IN FORCE

June 30, 1998

STREET LIGHTING

Customer charge

All KWH

15.00

Plus investment charge

.04372

OUTDOOR LIGHTING

175 Watt M.V.

6.00

400 Watt M.V.

11.50

100 Watt H.P.S.

6.50

150 Watt H.P.S.

7.50

250 Watt H.P.S.

10.00

400 Watt H.P.S.

13.50

1000 Watt M.H.

26.25

POLE RENTAL FOR LIGHTS

30 foot pole

5.00

35 foot pole

7.00

40/45 foot pole

8.00

Number of Customers at Year End:

Residential

5,707

Commercial

1,586

Street and athletic fields

40

Individually billed outdoor lighting

43

7,376

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

Board of Public Utilities
McMinnville, Tennessee

We have audited the financial statements of McMinnville Electric System, as of and for the year ended June 30, 1998, and have issued our report thereon dated August 3, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

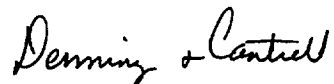
As part of obtaining reasonable assurance about whether McMinnville Electric System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McMinnville Electric System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Public Utilities
McMinnville, Tennessee
Page 2

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "Denning & Cantrell".

Certified Public Accountants

McMinnville, Tennessee
August 3, 1998

McMINNVILLE ELECTRIC SYSTEM

INDEPENDENT AUDITORS' SCHEDULE OF FINDING

For the Year Ending June 30, 1998

There were no findings for the year ended June 30, 1998. All previous findings have been corrected.